

Norfolk Southern Railway Company



Raleigh, N.C.

Annual Report
1966



Norfolk Southern Railway

NO ACKNOWLEDGEMENT NECESSARY

HENRY OETJEN

PRESIDENT
NORFOLK SOUTHERN RAILWAY CO. RALEIGH, N. C.

DIRECTORS

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FRANKLIN B. BARTHOLOW	Dallas, Texas
GEORGE C. DEMAS	New York, New York
WILLIAM F. KNORR	Philadelphia, Pennsylvania
FRANK MAURAN III	Providence, Rhode Island
WILSON NOLEN	New York, New York
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GEORGE R. SQUIRES	New York, New York
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OFFICERS

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HENRY OETJEN	President
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C. A. STURTEVANT	Assistant Vice President—Rates
J. M. DILLARD	Assistant Vice President—Industrial
AARON REGISTER	Assistant Comptroller

TRANSFER AGENTS

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
WACHOVIA BANK AND TRUST COMPANY

30 West Broadway, New York, New York 10015
Raleigh, North Carolina 27602

REGISTRARS OF STOCK

THE CHASE MANHATTAN BANK
FIRST-CITIZENS BANK & TRUST COMPANY

1 Chase Manhattan Plaza, New York, New York 10015
Raleigh, North Carolina 27602

NORFOLK SOUTHERN RAILWAY COMPANY

And Subsidiaries

HIGHLIGHTS

	<u>1966</u>	<u>1965</u>
OPERATING:		
Cars handled	114,140	109,876
Tons handled	5,458,762	5,197,132
Revenues	\$ 9,398,390	\$ 8,870,677
Operating expenses	\$ 7,790,218	\$ 7,424,273
Property, payroll, and other taxes	\$ 678,130	\$ 612,581
Net earnings (loss) for year	\$ (104,866)	\$ 13,491
Number of shares outstanding	491,404	491,404
Per share of common stock outstanding:		
Net earnings (loss) per share	\$ (.21)	\$.03
Taxes accrued per share	\$ 1.38	\$ 1.25
FINANCIAL:		
Total long-term debt	\$16,503,788	\$14,008,932
Properties less accumulated depreciation and amortization	\$35,422,531	\$31,103,880
Depreciation for year	\$ 812,040	\$ 780,098
Book value per share	\$ 41.86	\$ 42.08
EMPLOYEES:		
Average number during year	604	610
Man-hours	1,490,082	1,476,561
Total compensation	\$ 4,755,752	\$ 4,560,862
Average hourly rate	\$ 3.19	\$ 3.09
Health and welfare benefits, and payroll taxes	\$ 606,537	\$ 562,504
Average cost per man-hour	\$.41	\$.38
Total wages, payroll taxes, and health and welfare benefits	\$ 5,362,289	\$ 5,123,366
Average cost per employee	\$ 8,878	\$ 8,399
Percent of total revenues	57%	58%

Raleigh, North Carolina

March 27, 1967

To Our Stockholders:

In the year 1966 our total revenues were \$9,398,390 compared to \$8,870,677 in 1965, with a loss of \$104,866 as compared to a profit of \$13,491 in 1965. During the year we handled 114,140 cars, as against 109,876 in the previous year. Revenue tons amounted to 5,458,762 vs. 5,197,132 in 1965. Freight originating on our line amounted to 53.3 percent of total tonnage, while 46.7 percent of our tonnage was received from connecting lines.

Our preliminary results were sent to you in our letter of February 6, 1967; the audit of our 1966 figures has been completed and there are no changes.

Despite the increased business, our operating results were disappointing to us. Most of the expenses incurred in connection with construction of the branch line into Texas Gulf Sulphur's phosphate and chemical complex at Lee Creek, North Carolina, and our upgrading program have had to be borne by us with no compensating return for over a year. It was anticipated that the phosphate movement would start earlier in 1966; however, it didn't begin until the last month. As is the case with new industries and new plants, there have been many unforeseen problems which have affected the start-up time. As this letter is being written, the movement of phosphate is slowly increasing.

We are presently experiencing an increased movement of freight for our other patrons and are reasonably optimistic about general business conditions along our line, with a few possible soft spots such as commodities involved in the building and construction industry.

We are going to be faced with considerable industrial expansion on our line and we have planned accordingly. As you know, the North Carolina Phosphate Company (jointly owned by Kennecott Copper Company and Continental Oil Company), Dresser Magcobar (a joint venture of Dresser Industries and Borden Industries), and FMC Corporation, all have extensive interests in the phosphate area. At Weeksville, North Carolina, the new Westinghouse Electric Corporation plant is substantially completed and is presently stockpiling inventory, and they advise that they will begin shipping in July. Several of our large and valued customers are planning substantial expansions. We are therefore continuing our long range capital improvement program to keep our facilities in the best possible condition and to acquire new cars, motive power and other equipment necessary to serve these industries properly.

Plans are progressing on the proposed Cape Fear River flood control project, which includes a dam on the New Hope River, about which previous reports have been made. Construction of the dam would require relocation of a substantial portion of the tracks on Norfolk Southern's Durham Branch.

The Board of Directors records with a profound sense of loss the death on December 3, 1966 of Willard I. Emerson, a member of the Board since May 12, 1948.

The management expresses its grateful appreciation to our employees for their loyal efforts in 1966.

For the Board of Directors.

HENRY G. BRUNS

Chairman of the Board

HENRY OETJEN

President

THE YEAR IN REVIEW

MARKETING

Cars handled in 1966 compared with the previous year reflect an increase of 4264, brought about by improvements in movement of leaf tobacco, gravel and sand, solite cinders (due largely to the establishment of a new distribution yard on our line at Durham, North Carolina) and other manufactured and miscellaneous traffic. These increases were pared to some extent by lesser movements of pipe for pipeline construction, automobile frames, and building materials such as plumbing, gypsum products, wall board, etc. Decreases also occurred in shipments of brick, coal and cigarettes.

For 1967 the outlook for traffic presents a reassuring picture. In addition to phosphate, which is discussed in later paragraphs, we have certain elements in our traffic pattern that are most promising.

The acquisition by Westinghouse Electric Corporation of the old Weeksville Air Base property at Elizabeth City, North Carolina, for the manufacture of stereo, television and kitchen cabinets, will supply additional new business beginning in July of 1967.

A new development was the opening of a sand and gravel quarry at Becker, North Carolina, and we anticipate substantial shipments of metallurgical gravel (which produces higher revenue for us than our normal movement of ordinary gravel). Metallurgical gravel is used in the production of ferro-alloys.

Rate adjustments during 1966 continued to reflect greater efficiency resulting from technological and operating advances, heavier loading in larger and improved freight cars and more penetrating market research and cost studies. The heavier loading of cars is best illustrated by the increase in Norfolk Southern's average loading from 40.72 tons per car in 1956 to 49.58 tons per car in 1966, an increase of 8.86 tons per car, or approximately 22 percent.

During the year, our Company gave consideration to numerous proposals involving rate adjustments that would encourage loading of available equipment to capacity and thus improve our efficiency and competitive position. Many of the proposals considered were approved and made effective, with a resultant increase in tonnage carried during the year.

Nineteen new industries located on the Norfolk Southern during 1966, which represented a total investment of approximately \$4,053,000. Included are such industries as cabinet manufacturers, food processors, building suppliers, sand and gravel operations, farm suppliers, steel suppliers, pulpwood yards, tank and tank car rubber lining operations, tobacco storage, and fertilizer mixing, storage and distribution. During the past year twelve existing industries expanded, representing an investment of some \$6,865,000.

PHOSPHATE MINING

The heavy volume of traffic from Texas Gulf Sulphur's phosphate mine and chemical complex at Lee Creek, North Carolina, anticipated for 1966, did not materialize.

The chemical complex, which includes the sulphuric acid and phosphoric acid plants, has been completed and materials from the fertilizer plants are therefore beginning to move. Thus, after many months' delay, we are hoping to fully

utilize the facilities and equipment we have acquired for this movement.

We are keeping in touch with the other various mining companies that have been making economic studies to determine the feasibility of commercial mining in the phosphate area. One of these companies has released press reports stating that it has already invested several million dollars in its project. At least two others appear to be nearing the point of making some announcement with respect to their future plans.

OPERATIONS

Construction of the track into Lee Creek and the related yard tracks and sidings was the main project of the Maintenance of Way Department during the year. The 7¼ mile industrial spur

running from Elizabeth City, North Carolina, to the Westinghouse Electric plant located on the former air base property near Weeksville was acquired and rehabilitated. Restoration and up-

grading of the tracks acquired from the East Carolina Railway at Farmville, North Carolina, was completed.

Work continued on the entire system in re-construction, upgrading and filling bridges. Fourteen bridges, totaling 3550 linear feet, were rebuilt of concrete, steel and creosoted piling; eleven bridges were eliminated by filling, totaling 740 linear feet. The program of spraying bridge decks with fire resistant material was continued through the summer of 1966.

During the year construction was completed on nine industrial sidetracks, totaling 8186 track feet, and 5.8 miles of rail changes were completed, replacing lighter weight rail with 100 pound rail at various locations on the main line. Five-tenths mile of 60 pound rail was replaced with 80 pound rail on the New Bern branch. Rock ballast was installed in 4.7 miles of dirt track; the tie plate program was continued; and five miles of rail

anchors were installed in addition to those installed with rail changes. Three automatic flashing light signals were installed or relocated in North Carolina; new electronic two-draft motion weighing track scales were installed at Senter, North Carolina; and the upgrading of the dispatchers' ringing system between Raleigh and Norfolk was completed with the installation of new equipment.

* * * * *

The following table is an interesting comparison brought about by mechanization of roadway, mechanical and clerical forces, and the use of more efficient motive power:

	Year 1966	Year 1956	Increase (Decrease)
No. of employees	604	1,135	(531)
Man hours	1,490,082	2,632,009	(1,141,927)
Compensation	\$4,755,752	\$5,495,969	(\$ 740,217)
Average hourly rate	\$ 3.19	\$ 2.09	\$ 1.10

EQUIPMENT

Four new GP-38 diesel electric locomotives received and placed in service during the year further improved our train service to a more consistent performance level. Other new equipment purchased and placed in service included one hundred 100-ton covered hopper cars, seventy 77-ton hopper cars, twenty 70-ton wood chip hopper cars and fifteen flat cars equipped with chain and load binders for lumber loading. An additional two hundred 100-ton covered hopper cars were ob-

tained under lease arrangements and placed in service.

Orders have been placed for sixty 70-ton box cars with roof hatches, eight 70-ton flat cars for gypsum loading and three additional GP-38 diesel electric locomotives, for delivery early in 1967. All of these orders were placed before the seven percent investment credit was rescinded.

Including the value of the cars leased, the above-mentioned equipment represents an investment of more than \$8,000,000.

TAXES

Payroll taxes — Railroad Retirement, including provisions for Medicare, and Railroad Unemployment Compensation Insurance — rose sharply in 1966 over previous years because of increased rates and an increase in the taxable base compensation. The total increase averaged over \$60 a year for each employee, or a total increase of about \$40,000 for 1966 over the previous year.

Property taxes increased by about 15 percent

over 1965, partly attributable to the increased values represented by new investments in road and equipment properties, but also because of further increases in tax rates levied by counties and municipalities in which Norfolk Southern tracks and properties are located.

Overall, total taxes reflect an increase of \$65,549 in 1966 over 1965, or \$678,130 versus \$612,581.

LABOR NEGOTIATIONS

Most of the operating unions have signed on the basis of a five percent increase in wage rates. Because of the retroactive feature of these agreements, making increases effective August 12, 1966, it was necessary for us to absorb these retroactive charges during the month of December, thereby adversely affecting our fourth quarter results. These contracts will run through December 31, 1967.

Various work rules changes are yet to be resolved with the firemen; meanwhile, a Federal court has ordered the trainmen to negotiate crew-consist issues on a national basis. Several non-operating unions have signed one-year contracts, expiring December 31, 1967, which generally call for a wage increase of about five percent. A dispute with six shopcraft unions has been taken to a Presidential Emergency Board.

This is a report to the stockholders giving an account of stewardship of the management for the year 1966. It is not a representation, prospectus or circular in respect to any stock or security of the Company or of any corporation. It is not published or transmitted in connection with any sale or offer to sell or buy any stock or security now outstanding, or to be issued now or hereafter, or with any preliminary negotiations for any such sale.

PEAT, MARWICK, MITCHELL & Co.
CERTIFIED PUBLIC ACCOUNTANTS
1100 WACHOVIA BUILDING
GREENSBORO, NORTH CAROLINA 27401

The Board of Directors and Stockholders
Norfolk Southern Railway Company:

We have examined the consolidated balance sheet of Norfolk Southern Railway Company and subsidiaries as of December 31, 1966 and the related statement of earnings (loss) and retained earnings and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, except that no provision has been made for deferred income taxes referred to in note 3, the accompanying consolidated balance sheet and consolidated statement of earnings (loss) and retained earnings present fairly the financial position of Norfolk Southern Railway Company and subsidiaries at December 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the change in recording interline forwarded revenues as described in note 1, were applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds for the year ended December 31, 1966 presents fairly the information shown therein.

Peat, Marwick, Mitchell & Co.

February 17, 1967

NORFOLK SOUTHERN RAILWAY COMPANY

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS (LOSS) AND RETAINED EARNINGS

Year Ended December 31, 1966

With Comparative Figures for 1965

	1966	1965
OPERATING REVENUES	\$9,398,390	\$8,870,677
OPERATING EXPENSES:		
Maintenance of way and structures	1,680,457	1,515,609
Maintenance of equipment	1,540,230	1,431,523
Marketing	576,967	574,730
Transportation	3,114,555	3,063,880
General	878,009	838,531
Total operating expenses	7,790,218	7,424,273
PROPERTY, PAYROLL AND OTHER TAXES	678,130	612,581
EQUIPMENT AND FACILITY RENTS — NET	586,171	540,781
Total — Operating expenses, taxes, and rents	9,054,519	8,577,635
OPERATING INCOME	343,871	293,042
OTHER DEDUCTIONS (INCOME):		
Interest expense	690,328	584,401
Rentals from non-operating properties	(170,149)	(168,059)
Dividends and interest income	(68,720)	(64,568)
Miscellaneous — net	(2,722)	(72,223)
Total — Other deductions	448,737	279,551
NET EARNINGS (LOSS)	(104,866)	13,491
RETAINED EARNINGS AT BEGINNING OF YEAR	6,421,043	6,407,552
RETAINED EARNINGS AT END OF YEAR (Notes 3 and 4)	<u>\$6,316,177</u>	<u>\$6,421,043</u>

See accompanying notes to consolidated financial statements.

Norfolk Southern Railway Company

And Subsidiaries

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1966
WITH COMPARATIVE FIGURES AT DECEMBER 31, 1965

ASSETS	1966	1965
CURRENT ASSETS:		
Cash	\$ 428,637	\$ 417,136
U. S. Government securities, at cost	1,386,807	2,028,061
Accounts receivable	787,791	625,578
Materials and supplies, at average cost	1,121,303	986,944
Prepaid expenses	71,033	68,196
Total current assets	3,795,571	4,125,915
INVESTMENTS, at cost:		
Non-operating properties	942,657	919,943
Stocks and advances (note 4d)	268,703	297,619
Total investments	1,211,360	1,217,562
PROPERTIES (note 2):		
Road	28,119,757	26,398,947
Equipment	16,077,790	13,200,541
	44,197,547	39,599,488
Less accumulated depreciation and amortization	8,775,016	8,495,608
Net properties	35,422,531	31,103,880
OTHER ASSETS AND DEFERRED CHARGES	265,099	1,934,335
	<u>\$40,694,561</u>	<u>\$38,381,692</u>

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	1966	1965
CURRENT LIABILITIES:		
Accounts payable	\$ 1,792,875	\$ 2,035,975
Accrued interest and taxes	333,610	242,506
Other current liabilities	105,301	133,608
Total current liabilities, excluding long-term debt due within one year	2,231,786	2,412,089
LONG-TERM DEBT DUE WITHIN ONE YEAR (note 4)	1,061,530	1,052,398
LONG-TERM DEBT (note 4):		
Funded debt	9,126,189	9,511,908
Equipment obligations	7,377,599	4,497,024
Total long-term debt	16,503,788	14,008,932
OTHER LIABILITIES	325,314	228,194
COMMITMENTS AND CONTINGENCIES (note 6)		
STOCKHOLDERS' EQUITY:		
Common stock of \$1 par value per share. Authorized 1,000,000 shares; outstanding 491,404 shares including 66 shares reserved for conversion of bonds (note 5a)	491,404	491,404
Capital surplus (note 5b)	13,764,562	13,767,632
Retained earnings (notes 3 and 4)	6,316,177	6,421,043
Total stockholders' equity	20,572,143	20,680,079
	<u>\$40,694,561</u>	<u>\$38,381,692</u>

NORFOLK SOUTHERN RAILWAY COMPANY

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS YEAR ENDED DECEMBER 31, 1966 WITH COMPARATIVE FIGURES FOR 1965

	<u>1966</u>	<u>1965</u>
Funds provided:		
Net earnings (loss)	\$ (104,866)	\$ 13,491
Depreciation	812,040	780,098
New long-term debt:		
Equipment obligations (note 4c)	3,552,946	3,375,000
Bank loans	—	500,000
Other	17,910	—
Proceeds from sale of additional common stock—net (note 5b)	(3,070)	1,199,860
Proceeds from retirement of depreciable property	296,421	275,400
Application of funds on deposit with trustee at December 31, 1965, for construction of phosphate track	1,353,733	(1,353,733)
Decrease (increase) in other assets and liabilities	441,538	(140,834)
Total funds provided	<u>\$6,366,652</u>	<u>\$4,649,282</u>
Funds used:		
Additions and betterments to properties—net	\$5,449,827	\$3,205,647
Reduction of long-term debt	1,075,998	1,315,522
Increase (decrease) in working capital	(159,173)	128,113
Total funds used	<u>\$6,366,652</u>	<u>\$4,649,282</u>

See accompanying notes to consolidated financial statements.

NORFOLK SOUTHERN RAILWAY COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1966

(1) Principles of accounting and consolidation:

(a) The consolidated financial statements include the accounts of all subsidiary companies and in consolidation all intercompany items and transactions have been eliminated. The figures for the year ended December 31, 1965 are shown for comparative purposes only and should be read in conjunction with footnotes thereto which appear in the annual report for that year.

(b) During the year, the Company changed its accounting practice to record interline forwarded revenue on an accrual basis whereas, in prior years, these revenues have been recorded on a cash basis. The effect of this change has decreased the current year loss by approximately \$65,000; no revision has been made in the 1965 accounts since it was not practicable to determine the amount of revenue accrued at January and December 31, 1965.

(2) Properties:

Consistent with the practice generally followed by Class 1 railroads, no provision has been recorded for depreciation of road property prior to January 1, 1942. Depreciation recorded in the accounts of the Company has been computed in accordance with regulations of, and at rates prescribed by, the Interstate Commerce Commission.

(3) Deferred income taxes:

No provision has been made in the accounts for deferred Federal income taxes to record the effect of using accelerated depreciation and amortization methods for tax purposes. Provision for deferred taxes is required under generally accepted accounting principles. The liability for such deferred income taxes at December 31, 1966 was approximately \$260,000, the tax on the excess of tax depreciation over book depreciation after giving effect to offsetting net operating loss and investment credit carry-forwards under the provisions of the Internal Revenue Code.

(4) Long-term debt:

(a) Detailed information of outstanding consolidated long-term debt at December 31, 1966, including a schedule of annual maturities, is set forth on page 12 of this Annual Report.

(b) The First Mortgage Bonds indenture requires payment of \$140,000 annually into a sinking fund to be applied to payment of accrued interest and to purchase of bonds at prices not in excess of 103% of principal amount thereof. Further, annual rental income of \$130,000 on non-operating properties has been assigned as security for such bonds. The 5¼% General Mortgage and Deed of Trust Notes and the 4¾% Guaranteed Notes are guaranteed as to payment by the United States

of America under Part V of the Interstate Commerce Act. The 5¼% Notes, which are secured by a General Mortgage and Deed of Trust on the assets of the Company, are payable in annual installments of \$200,000 to 1974. The 4¾% Notes, which are secured by a Second General Mortgage on the assets of the Company and a first lien on the Company's branch line into the phosphate mining area, are payable in annual installments of \$200,000 from 1968 to 1973 with increasing installments to 1977; the balance (\$2,100,000) is payable in 1978.

(c) During the year, the Company acquired four diesel locomotives, 205 cars, and other equipment under conditional sales agreements. The equipment obligations issued under these agreements amounted to \$3,552,946, payable in annual installments from 1966 to 1981, with interest at 5.50% to 6%.

(d) Investments in stocks carried at approximately \$130,000 and the entire outstanding capital stocks of subsidiary companies, are pledged as collateral for funded debt.

(e) The several agreements and indentures relating to long-term debt contain, among other conditions, restrictions on payment of cash dividends on common stock and acquisition of shares of common stock of the Company. At December 31, 1966, none of the retained earnings was free of these restrictions.

(5) Common Stock and Capital Surplus:

(a) At December 31, 1966, there were 44,673 Stock Purchase Warrants outstanding, exercisable on or before October 31, 1968. Each Warrant entitles the holder to purchase one share of Common Stock at a price of \$34; 44,673 shares of authorized Common Stock were reserved for these Warrants.

(b) The decrease (\$3,070) in capital surplus during the year represents additional expenses in connection with the sale of Common Stock in 1965.

(6) Commitments and contingencies:

(a) At December 31, 1966, the Company had entered into agreements whereby it would purchase 3 diesel locomotives, 68 cars, and other equipment under conditional agreements for approximately \$1,760,000.

(b) The companies are obligated under equipment and other lease agreements with aggregate annual rentals ranging from approximately \$850,000 during 1967 to \$770,000 during 1971.

(c) The companies have other commitments and contingencies arising in the ordinary course of business, none of which would have any material effect on the consolidated financial position.

NORFOLK SOUTHERN RAILWAY COMPANY

AND SUBSIDIARIES

CONSOLIDATED LONG-TERM DEBT

	Date of				Amount Due	
	Agreement	Maturity	Rate of Interest	Outstanding at December 31, 1966	In 1967	After 1967
FUNDED DEBT:						
First Mortgage Bonds, Series "B" . . .	1946	1986	3%	\$ 1,967,000	\$ 83,000	\$ 1,884,000
General Mortgage and Deed of Trust, subordinated	1960	1974	5¼ %	1,600,000	200,000	1,400,000
Guaranteed Notes	1963	1978	4¾ %	5,400,000	—	5,400,000
Installment Notes and Loans:						
Purchase Tobacco Spur Track . . .	1957	Use Obligation		151,978	11,500	140,478
Purchase Industrial Property	1958	1969	4%	40,000	13,333	26,667
Bank Loan	1965	1970	5½ %	358,333	100,000	258,333
Warehouse Purchase	1966	1976	None	5,900	600	5,300
Realty Purchase	1966	1982	6%	11,910	499	11,411
Total Funded Debt				9,535,121	408,932	9,126,189
EQUIPMENT OBLIGATIONS:						
50 Steel Hopper Cars	1957	1967	4¾ %	11,800	11,800	—
25 Steel Hopper Cars	1957	1967	5%	5,900	5,900	—
Tamper, Scarifier, and Tie Saw . .	1964	1970	5½ %	70,142	23,380	46,762
5 Steel Hopper Cars	1961	1971	5½ %	22,622	5,323	17,299
Crane, Fork Lift, Radio and Photo Equipment	1966	1971	5¾ %	77,008	17,229	59,779
250 Steel Box Cars	1959	1974	6%	1,486,560	200,000	1,286,560
20 Box Cars	1965	1975	5%	350,000	40,000	310,000
17 Diesel Locomotives	1965	1978	5½ %	2,550,000	212,500	2,337,500
70 Hoppers, 15 BH Flats, 2 Diesel Locomotives	1966	1981	5¾ %	1,405,000	93,667	1,311,333
100 Hopper Cars	1966	1981	5½ %	1,409,185	—	1,409,185
20 Chip Hoppers and 2 Diesel Locomotives	1966	1981	6%	641,980	42,799	599,181
Total Equipment Obligations . . .				8,030,197	652,598	7,377,599
TOTAL LONG-TERM DEBT				\$17,565,318	\$1,061,530	\$16,503,788

SCHEDULE OF ANNUAL MATURITIES OF LONG-TERM DEBT

1967	\$1,061,530	1975	\$1,196,527
1968	1,345,518	1976	1,168,477
1969	1,347,551	1977	1,172,028
1970	1,272,202	1978	2,675,084
1971	1,203,779	1979	366,642
1972	1,197,395	1980	360,684
1973	1,200,437	1981	362,275
1974	1,189,042	1982-1986	446,147

NORFOLK SOUTHERN RAILWAY COMPANY

AND SUBSIDIARIES

CONSOLIDATED OPERATING EXPENSES

	1966	Per Cent of Total Revenues	1965	Per Cent of Total Revenues
MAINTENANCE OF WAY				
Supervision	\$ 134,848		\$ 161,082	
Bridges, Trestles and Culverts	147,905		136,765	
Roadway and Track Maintenance	826,263		692,711	
Communications and Signals	39,370		30,147	
Depreciation	253,645		242,934	
Buildings and Structures	33,573		27,355	
Roadway Machines; Tools and Supplies	116,501		81,526	
Maintenance Joint Facilities	3,287		23,509	
Insurance; Injuries; Health and Welfare	92,504		94,625	
Other Expenses	32,561		24,955	
TOTAL	1,680,457	17.88	1,515,609	17.09
MAINTENANCE OF EQUIPMENT				
Supervision	117,710		117,772	
Locomotive Repairs	288,003		246,288	
Freight Car Repairs	459,333		418,099	
Depreciation	558,395		537,164	
Insurance; Injuries; Health and Welfare	79,490		80,376	
Other Expenses	37,299		31,824	
TOTAL	1,540,230	16.39	1,431,523	16.14
MARKETING				
Supervision	204,886		190,011	
Outside Agencies	267,402		287,403	
Advertising	15,399		12,852	
Industrial Development	41,092		39,041	
Insurance; Health and Welfare	11,622		11,388	
Other	36,566		34,035	
TOTAL	576,967	6.14	574,730	6.48
TRANSPORTATION				
Supervision	137,119		143,637	
Dispatchers	90,202		88,424	
Station Employees	424,498		420,580	
Station Supplies and Expenses	38,002		38,965	
Yard Operations	475,032		482,216	
Road Train Operations	1,514,394		1,452,583	
Signals, Crossings, Communications	130,159		119,544	
Health and Welfare; Insurance	153,149		144,325	
Loss and Damage — Freight	40,602		65,913	
Injuries to Persons	54,536		70,986	
Other	56,862		36,707	
TOTAL	3,114,555	33.14	3,063,880	34.53
GENERAL				
Supervision	222,449		197,247	
Clerical	266,244		264,587	
Law Expenses	70,064		67,108	
Printing, Office Supplies and Expenses	120,538		123,410	
Health and Welfare; Pensions	86,700		94,257	
Other Expenses	112,014		91,922	
TOTAL	878,009	9.34	838,531	9.45
TOTAL OPERATING EXPENSES	\$7,790,218	82.89	\$7,424,273	83.69

NORFOLK SOUTHERN RAILWAY COMPANY

FIRST MORTGAGE CERTIFICATE

WE, HENRY OETJEN, President of Norfolk Southern Railway Company, and HURST OWEN, Comptroller thereof, do hereby certify that the following are the amounts required to be certified pursuant to the provisions of Section 10 of Article FOUR of the First Mortgage of Norfolk Southern Railway Company to Manufacturers Trust Company, as Trustee, dated as of July 1, 1938, which amounts are as ascertained for the calendar year 1966 on the basis provided in said Section 10 of Article FOUR:

(1)	Amount of Railway Operating Revenues	\$9,398,390
(2)	Amount of Income (Loss) after Fixed Charges	(103,934)
(3) (i)	Charges to Operating Expenses for Depreciation of Way and Structures	264,323
(ii)	Charges to Reserve for Depreciation of Way and Structures which in the absence of such Reserve would have been charged to Operating Expenses	92,540
(iii)	Excess of Item (i) over Item (ii)	171,783
(4)	Amount of Income after Fixed Charges available for and credited to the Depreciation and Obsolescence Fund Account as required by Section 2, Article 4	—
(5)	Amount charged against the Depreciation and Obsolescence Fund Account	—
(6)	Balance in the Depreciation and Obsolescence Fund Account as of December 31, 1966	\$1,476,010

We do further certify as follows:

- (a) That we have read the provisions of Section 10 of Article FOUR of said Mortgage;
- (b) That the said Hurst Owen has prepared the foregoing information from the books and records of Norfolk Southern Railway Company and that the said Henry Oetjen has examined said information and discussed the same with the Comptroller;
- (c) That in our opinion we have made such examination as is necessary to enable us to express an informed opinion as to whether or not this certificate complies with the provisions of Section 10 of Article FOUR of said Mortgage; and
- (d) In our opinion the conditions or covenants of said Section will have been complied with upon the filing of this certificate with the Trustee under the said Mortgage.

Dated, at Raleigh, North Carolina, this 24th day of February, 1967.

(Signed) HURST OWEN
Comptroller, Norfolk Southern
Railway Company

(Signed) HENRY OETJEN
President, Norfolk Southern
Railway Company

NOTE: \$254,298 was withdrawn from the Proceeds from Sale of Salvaged Equipment Account during 1966.

TRAFFIC STATISTICS

	1966	1965
Average Miles of Road Operated	601 ✓	593 ✓
Train Miles	579,734	557,559
Gross Ton Miles (000 omitted)	1,238,989	1,161,191
Revenue Net Ton Miles (000 omitted)	626,009	577,565
Freight Revenue	\$9,181,691	\$8,670,080
Ratio of Freight Revenue to Total Revenue	97.7%	97.7%
Revenue Per Net Ton Mile (Cents)	1.47	1.50

COMMODITY	TOTAL TONS HANDLED			
	Originated		Received from Connections	
	1966	1965	1966	1965
Farm products	230,135	273,257	202,943	104,351
Coal	213	260	726,949	727,790
Non-metallic minerals	1,148,778	949,309	587,717	468,416
Food and kindred products	91,744	40,233	103,333	118,495
Tobacco products	14,837	32,743	19,530	20,861
Lumber and wood products	472,013	451,290	126,587	134,266
Furniture	3,172	2,388	2,253	2,637
Pulp, paper, and allied products	227,962	205,522	64,652	55,171
Chemicals and allied products	59,351	52,690	153,606	117,992
Petroleum and coal products	25,828	28,331	30,454	37,762
Stone, clay, and glass products	586,889	674,376	352,231	498,025
Primary and fabricated metal products	12,672	9,894	64,369	69,846
All other	36,340	34,669	114,204	86,558
Total	<u>2,909,934</u>	<u>2,754,962</u>	<u>2,548,828</u>	<u>2,442,170</u>
Percent of total tons handled	<u>53.3</u>	<u>53.0</u>	<u>46.7</u>	<u>47.0</u>

EQUIPMENT

	December 31	
	1966	1965
LOCOMOTIVES		
Owned	34	31
Leased		5
Total	<u>34</u>	<u>36</u>
FREIGHT CARS		
Owned	1,203 (1)	1,151
Leased	1,094	807
Total	<u>2,297</u>	<u>1,958</u>
COMPANY SERVICE CARS (ALL OWNED)	<u>62</u>	<u>62</u>

(1) Includes six cars sold, but not yet taken out of service.

Other information or statistics will be sent to stockholders, statisticians, analysts or others who may be interested, upon request to the Comptroller of the Company, P. O. Box 2210, Raleigh, North Carolina 27602.



Norfolk Southern Railway Company

MARKETING DEPARTMENT

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Raleigh, N. C. Tel. 828-7262

SALES AND SERVICE

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M. L. Butterson, Freight Traffic Manager-Sales
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RATES AND DIVISIONS

C. A. Sturtevant, Asst. Vice Pres.-Rates
C. F. M. Morris, Jr., Freight Traffic Manager
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SALES AND SERVICE OFFICES

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H. H. Jones — Wilson
Norfolk Southern Main Line
and Black Creek Rd. — Tel. 243-4747
G. L. Howerton — Winston-Salem
402 Nissen Bldg. — Tel. 722-7933

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P. O. Box 4657, Berkley Station — Tel. 543-2095
J. L. McGhee — Richmond
304 Crenshaw Bldg. — Tel. 643-2301

ALABAMA

J. H. Grotheer — Birmingham
402 City Federal Bldg. — Tel. 252-2217

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W. V. Saggus — Atlanta
101 Marietta St. — Tel. 522-3446

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12 South Twelfth St. — Tel. 925-0330
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INDUSTRIAL DEVELOPMENT

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Norfolk Southern Railway Company



Raleigh, N.C.